

John Engler, Governor

THE MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY

Russell J. Harding, Director
<http://www.deq.state.mi.us>



&

THE MICHIGAN MUNICIPAL BOND AUTHORITY

Janet Hunter-Moore, Executive Director

Under the Authority of Part 54, Clean Water Assistance, of the Natural Resources
and Environmental Protection Act, 1994 PA 451 and the Shared Credit Ratings Act, 1985 PA 227

Present the

FISCAL YEAR 1998 ANNUAL REPORT of the MICHIGAN DRINKING WATER REVOLVING FUND

Prepared by:
Municipal Facilities Section
Environmental Assistance Division
PO Box 30457
Lansing, MI 48909-7957
517-373-2161

March 1, 1999

Table of Contents

I.	Introduction	3
II.	Program Contacts	3
III.	Program Milestones	4
IV.	Program Structure	5
V.	Long-term Goals	5
VI.	Short-term Goals	7
VII.	Establishment of Interest Rates	11
VIII.	Advantages of the Drinking Water Revolving Fund	12
IX.	Allocation of Funds	12
X.	EPA Automated Clearinghouse Activities	14
XI.	Assurances	14
XII.	Summary	14
XIII.	Origination of Documents	15

Attachments

Proposed Financing Structure of the Drinking Water Revolving Fund

Chart 1 – Cumulative Funded Projects

Chart 2 – Project Detail

Chart 3 – Project Date Information

Chart 4 – Category Costs

Chart 5 – Sources and Uses of Funds

Chart 6 – Disbursements

Chart 7 – Initiation of Operation Dates

Chart 8 – Administrative Completions

I. INTRODUCTION

On August 2, 1996, the Congress of the United States passed the Safe Drinking Water Act (SDWA) amendments of 1996 (P.L. 104-182). This legislation authorized the creation of a revolving fund to provide low-interest loans to qualified water suppliers for repairs or enhancements to public water supply systems. In theory, this fund would be very similar to the State Revolving Fund (SRF) created to assist water pollution control projects.

Michigan responded to the new federal program by creating the Drinking Water Revolving Fund (DWRF). Governor John Engler signed legislation sponsored by State Representative Jon Jellema into law as 1997 Public Acts 26 and 27 on June 16, 1997. As with the SRF, the DWRF is co-administered by the Department of Environmental Quality (MDEQ) and the Michigan Municipal Bond Authority (MMBA). The MDEQ handles all programmatic issues, while the MMBA serves the program with its financial expertise.

The first act created a new Part 54, Safe Drinking Water Assistance, in the Natural Resources and Environmental Protection Act (1994 PA 451), while the second amended the Shared Credit Ratings Act (1985 PA 227) to include the DWRF in the MMBA legislation.

While there are many similarities between the SRF and the DWRF, there are some notable differences. For instance, the SRF is permitted to fund only municipalities, while the DWRF may include privately owned community water suppliers. The SRF has very limited set-aside funds, whereas the DWRF makes liberal use of special set-asides to fund administration, capacity development, source water protection, source water assessments, etc. The loan repayment length in the SRF is limited to 20 years, while the DWRF can extend up to 30 years for communities that qualify as “disadvantaged.”

Michigan's DWRF recognized these program differences and quickly developed its financing program to meet the statewide demands for financial assistance. From the time the new legislation was signed into law until the first loan commitment was offered on June 12, 1998, less than one year had passed. In fact, by August, Michigan had committed 24 different loans totaling \$53,240,000. This effort was cited at the annual meeting of the Council of Infrastructure Finance Authorities as being one of the most advanced DWRF programs in the country.

Such recognition reflects positively on the staff of the MDEQ and the MMBA. The Environmental Assistance and DWRPDs of the MDEQ are to be credited for working diligently to provide technical assistance during the legislative process and for developing guidelines and procedures which helped community water suppliers understand the steps necessary for financial assistance. The MMBA, and their team of underwriters, bond counsel, and financial advisors were instrumental in establishing a bonding structure that maximizes the funds available for this assistance.

The balance of this first annual report for Michigan's DWRF will address the specific program components and the satisfaction of requirements imposed by the SDWA amendments.

II. PROGRAM CONTACTS

For financial issues dealing with the bonding structure, bond documents, financial detail and audit results, please contact:

Ms. Janet Hunter-Moore, Executive Director
Michigan Municipal Bond Authority
Treasury Building
Lansing, MI 48922

For technical reviews of DWRF projects, permit issuance, and administration of the set-aside programs authorized by the SDWA, please contact:

Mr. James Cleland, Acting Chief
Drinking Water and Radiological Protection Division (DWRPD)
P.O. Box 30630
Lansing, MI 48909-8130

For program oversight, grant administration, and project management issues, please contact:

Mr. Thomas Kamppinen, Chief
Municipal Facilities Section (MFS)
Environmental Assistance Division
P.O. Box 30457
Lansing, MI 48909-7957

III. PROGRAM MILESTONES

August 2, 1996	Passage of the SDWA amendments (P.L. 104-182)
October 1, 1996	First formal MDEQ meeting to discuss the DWRF
November 7, 1996	First stakeholders meeting held to discuss initial legislative draft
March 6, 1997	House Bills 4465 and 4466 to create the DWRF were enrolled by unanimous vote
May 28, 1997	Senate unanimously passed H.B. 4465 and 4466
June 17, 1997	Governor John Engler signs bills into law as 1997 PA 26 and 27
July 22, 1997	MDEQ public hearing on use of set-aside funds
August 5, 1997	Memorandum of understanding which detailed operating responsibilities signed between the Environmental Assistance Division and the DWRPD
September 10, 1996	Final Intended Use Plan (IUP) for set-aside funds was submitted to the EPA
September 17, 1997	First capitalization grant for set-aside funds submitted to the EPA
September 18, 1997	Operating Agreement between the MDEQ and the MMBA signed
December 2-11, 1997	The MDEQ held DWRF workshops at four sites across the state
December 9, 1997	Operating Agreement between EPA, MDEQ and MMBA signed
December 9, 1997	First capitalization grant for set-aside funds was awarded
January 2, 1998	Project plans due from water suppliers for FY 1998 funding
March 17, 1998	MDEQ conducts public hearing on draft FY1998 IUP and Project Priority List (PPL)
April 10, 1998	FY1998 Final IUP and PPL submitted to the EPA
June 12, 1998	The EPA awards capitalization grant for project funds; the MDEQ issues four Orders of Approval (OOA) signed as binding commitments for project loans
August 27, 1998	The MDEQ signs 20 additional OOAs bringing total first year binding commitments for projects to \$53.24 million

IV. PROGRAM STRUCTURE

Michigan will operate the DWRF within a financing structure similar to that of the SRF. We will offer loans to qualified applicants who possess at least investment grade bond ratings through their own ratings or through other credit enhancements.

For water suppliers who are municipalities with granted bonding authority, this presents no significant challenges. The DWRF will sell tax-exempt revenue bonds to provide money that will be used to reimburse communities for incurred costs. As the DWRF reimburses suppliers, federal funds from the capitalization grant and state funds from the grant match will be transferred into a debt service reserve account to provide coverage for the leveraged bond issue.

However, for water suppliers who are private entities, limitations on private activity for tax-exempt issues will be necessary. Direct loans from the DWRF capitalization grant and state match will be offered under Part 54, 1994 PA 451 to private water suppliers who meet all other criteria for receiving funds. Direct loans to private suppliers will avoid contamination of the state's tax-exempt bond issue.

Both the DWRF and the SRF received highly favorable ratings in July, 1998 from Moody's Investor Services and Standard & Poors, Aa1 and AA+, respectively. These ratings demonstrate a high level of confidence in the structure and administration of Michigan's infrastructure programs.

For a graphical representation of the DWRF, a schematic design of the flow of funds for the DWRF is included as an attachment to this annual report.

V. LONG-TERM GOALS

Michigan's DWRF establishes a new funding source designed to protect and preserve public health within the state's boundaries. Michigan's geographical identity as a Great Lakes state affords its citizens with an abundant and high quality water resource from which to draw its drinking water. Unlike many states, Michigan water supplies are plentiful and periods of restricted use are few and far between in most communities.

Given our abundant water resource, the greater challenge for water suppliers lies in protecting the high quality of the resource as well as ensuring that adequate volume and pressure exist to deliver potable water to the customer.

In light of the interest in protecting public health, the MDEQ has undertaken efforts toward the attainment of Michigan's following long-term goals (as stated in the IUP):

- 1. To achieve and maintain statewide compliance with all applicable state and federal drinking water laws, rules and standards.***
- 2. To protect the public health and environmental quality of our state.***
- 3. To develop and commence a source water assessment and a wellhead protection program.***
- 4. To develop strategies within the DWRF to assist smaller, economically disadvantaged communities in meeting drinking water standards.***

- 5. To promote the DWRF as a viable tool for use by Michigan water suppliers in financing their waterworks system improvements or upgrades.**
- 6. To secure Michigan's full share of federal funding and to expeditiously obligate these moneys, along with the state contributions, for the construction of eligible facilities which meet state and federal requirements.**
- 7. To develop effective partnerships with other federal and state financing sources to promote efficiency in environmental review procedures and coordination of funding.**

Michigan has been proud of its accomplishments in promoting compliance with all applicable drinking water requirements. Protection of public health, while delivering abundant potable water, results from the collective efforts of both state and local officials. Prior to the creation of the DWRF, project financing for community water supply was left largely to the local unit of government or to individuals investing in their own supply wells.

The DWRF provides a new source of infrastructure financing which will assist communities in protecting both public and environmental health and well being. After the first year of funding, 24 projects will invest approximately \$53 million to improve distribution, develop new supply wells, add/or enhance storage and maintain or increase capacity.

The development of the DWRF, from first conception to delivery of the first loan awards, demonstrated Michigan priorities in expeditiously obligating funds obtained from the federal capitalization grant and state match. The DWRF lost no time in making awards from the first grant awarded on June 12, 1997. Upon receipt of the grant, staff had Order of Approval documents ready to sign committing \$53 million of the \$97 million available.

To achieve the long-term goal of maximizing benefits for "disadvantaged" communities, the MDEQ first defined how they could qualify, then identified additional benefits which would lessen their financial impacts. These additional incentives include loans with repayment over 30 years; use of technical assistance funds to help defray the costs of project planning; and 50 additional points in the priority scoring. To qualify as a disadvantaged community, a water supplier must:

- Meet the definition of "municipality" established in Sec. 5402(g). Private suppliers, such as manufactured housing communities, subdivisions, churches, or other non-municipal systems may not achieve this designation if they are the applicants for DWRF assistance.
- Directly assess users within the area served by the proposed water supply project for the costs of construction. Municipalities that choose to assess construction costs over a wider area than the service area of the project may not qualify as a disadvantaged community unless the entire area to be assessed for the project meets the criteria set forth in Part 54. This may ease the economic impact of utility rates by spreading them over a larger user base, however such action may not circumvent the intent to assist only those users truly unable to pay for the waterworks system improvements.
- The water supplier must also demonstrate at least one of the following:
 1. More than 50 percent of the geographic area to be served by a proposed public water supply project is identified as a poverty area by the U.S. Bureau of the Census.

2. The Median Annual Household Income (MAHI) for the area to be served by a proposed public water supply project is less than the most recently published Federal Poverty Guidelines for a family of four in the 48 contiguous United States. These guidelines are published annually by the Department of Health and Human Services.
3. The MAHI for the area to be served by a proposed public water supply project is less than the most recently published statewide MAHI for Michigan, and annual user costs [as defined in 1994 PA 451, Section 5401(B)] for water supply will exceed 1.5 percent of the MAHI of the area to be served by the proposed public water supply project.
4. The MAHI for the area to be served by a proposed public water supply project is greater than the statewide MAHI for Michigan, (up to 120 percent) and annual user costs for water supply will exceed 3 percent of the MAHI of the area to be served by the proposed project.

A municipality will not qualify as a disadvantaged community if the MAHI of the service area exceeds 120 percent of the updated statewide MAHI.

The goals of promoting partnerships and marketing the new DWRP program resulted in a number of specific outreach efforts during FY1998. The MFS newsletter was expanded to include the DWRP program. In addition, program managers and staff have been active in attending meetings to promote the DWRP.

VI. **SHORT-TERM GOALS**

In order to accomplish the long-term goals, we focused on more immediate objectives. Therefore, our short-term goals in FY1998 were:

A. To continue our outreach effort to publicize the DWRP through direct mail, electronic media, newsletter publication, workshops, and meetings.

The goals of promoting partnerships and marketing the new DWRP program resulted in a number of specific outreach efforts during FY1998. The MFS newsletter, formerly called The Digester, was expanded to include the DWRP program and underwent a name change. It is now known as The Loan Arranger and routinely introduces articles of interest about the new loan program. Its readership increased from approximately 450 to over 1100 copies.

In addition, program managers and staff have been active in attendance at meetings with those most impacted by the DWRP. Meetings with the Consulting Engineers Council, the Michigan Section of the American Waterworks Association, and the Michigan Rural Water Association were held to discuss their interest in the program. In addition, staff conducted a series of introductory workshops in four different locations and invited engineers, local officials, bond counsel and others who might interface with the MDEQ. Attendance at these meetings topped 400 participants.

B. To promote the disadvantaged community assistance.

The concept of additional assistance for disadvantaged communities is new to the DWRP. Many local officials and consulting engineers simply have not been clear about how their communities may qualify for the benefits that may be available. However, the communities of White Cloud and Ontonagon did qualify as

disadvantaged communities during FY1998. Neither of these projects was funded during the fiscal year.

To broaden understanding of the disadvantaged community concept, MFS developed a guidance document that explains it in greater detail. In addition, review staff from the Technical Support Unit in MFS have also been available to discuss the qualifications for communities interested in learning whether or not they might benefit from the disadvantaged designation.

C. To staff up and develop implementation plans for source water protection focused on statewide surface water assessments and groundwater assessments in areas tributary to the Great Lakes.

The SDWA amendments require states to submit their Source Water Assessment Programs (SWAP) by February 6, 1999 for EPA approval.

The intent of the SWAP is to identify the areas that supply public tap water; inventory contaminants and assess water supply susceptibility to contamination; and inform the public of the results. Michigan has almost 12,000 community and non community public water supplies with an estimated 18,000 sources to assess. With the allowable 18-month extension, the assessments are to be completed by May 2003.

In FY1997, Michigan reserved the maximum set-aside--ten percent of the initial federal capitalization grant. This reserved \$5,968,110 to carry out the SWAP activities. There were no expenditures for SWAP during that fiscal year, but in FY1998 MDEQ expended \$372,879.

SWAP activities over the past fiscal year were largely focused on start-up. The MDEQ negotiated non community assessment contracts with Michigan State University Institute of Water Research and local health departments. Global positioning equipment, well key entry systems, and well location aids were tangible components of the contracts.

There were seven advisory committee meetings held, along with numerous training sessions. In addition, DWRPD staff worked on drafting a Joint Funding Agreement with the U.S. Geological Survey, held four public meetings, made several public presentations, initiated assessment discussions with the city of Detroit, and began drafting the SWAP document. An engineering position was filled in March 1998 to coordinate these activities.

SWAP activities will continue over the next four years to achieve the goals established by the SDWA.

D. To enhance the State's Wellhead Protection Program.

Efforts to enhance wellhead protection areas (WHPA) of community water supplies embrace two fronts. During FY1998, the DWRPD initiated a comprehensive program to manage abandoned wells located inside delineated or designated WHPAs. In addition, the division established a matching grant program for development and implementation of local Wellhead Protection Programs (WPP) under the existing voluntary state program.

The Abandoned Well Management Program (AWMP) couples a statewide public education initiative with demonstration projects conducted in three Michigan communities. The education outreach involved stakeholders such as water utility managers, local health department staff, registered well drilling contractors, city planners, consulting engineers and MDEQ staff. In all, 18 public outreach presentations were made to approximately 450 participants.

The demonstration projects are expected to raise the level of public awareness concerning environmental threats posed by unplugged abandoned wells. The communities of Niles, Roscommon and Coldwater were selected from a group of 13 applicants who reflected a variety of geological and demographic conditions. The demonstration projects undertook efforts to:

- Locate all available water well drilling records within the WHPA.
- Conduct field surveys to locate all wells.
- Identify all property owners within the delineated or designated WHPA.
- Document unplugged abandoned wells.
- Secure property owner participation.
- Contract with registered well drilling contractors to plug abandoned wells.
- Verify proper plugging procedures.
- Document or map "active well" locations using Global Positioning System technology.

To date, the demonstration projects have resulted in 647 properties being surveyed, 339 wells were identified, and 69 unplugged abandoned wells were found (of which 59 were scheduled for plugging using cost share funding). An average of unplugged abandoned wells per square mile of WHPA was estimated using data gathered during the demonstration projects.

Other program highlights include:

- Participation in six well plugging demonstrations with the Michigan Department of Agriculture and the Ground Water Stewardship program which facilitate statewide uniformity with well abandonment requirements in the field.
- Uniform interpretation of state rules involving abandoned well management issues.
- Technical assistance for water utility managers and local health departments.
- Creation of a digital image library of well plugging activities for use with multimedia presentations.
- Evaluate abandoned well program data from a nation-wide survey.
- Assembly of maps of delineated wellhead protection areas.

The DWRPD allocated \$225,000 from the set-aside funds for the AWMP. Staff expenses include one FTE assigned to the Ground Water Supply Section to coordinate the program. Two student assistants were utilized during the summer to assist community water utility managers with record searches and field surveys at the three demonstration sites. In addition, initial start-up expenses for locating and plugging abandoned wells with the WHPA of the demonstration project communities were allocated during FY1998. In total \$60,588 was expended. Remaining expenses for completion of the operations will carry over into FY1999.

E. To identify and establish a Technical Assistance Program for small communities.

There are no authorized FTEs for this program. Existing staff in the DWRPD and EAD/MFS will administer it. The total set-aside allocated from the FY1998 capitalization grants for technical assistance equals \$1,612,650. There has been no expenditure of funds through the end of FY1998.

The expected uses of the funds should occur beginning in FY1999. The DWRPD has developed contract specifications and offered a four-year contract to provide site-specific technical assistance to community and non transient, non community public water supplies serving a population less than 10,000. The contract underwent a competitive bidding process and was awarded in January 1999.

Remaining funds in the technical assistance set-aside are available for communities that qualify as disadvantaged communities with less than 10,000 population. These moneys will be used to help defray the cost of planning for projects submitted by the local officials. The short time allowed to commit funds available during FY1998 resulted in projects that were already substantially planned.

Through outreach efforts, the MDEQ expects the small, disadvantaged communities to begin to take advantage of the available funding during planning for FY1999 projects.

F. To fund projects identified in the revised IUP, enabling them to proceed with construction of facilities included in their adopted project plans during the third and fourth quarters of FY1998.

The successful launch of the DWRF provided low interest financing to 24 projects totaling over \$53 million. This means the MDEQ and the MMBA committed 55 percent of available project funds in the first two quarters of the new program. This is a remarkable accomplishment that set Michigan's program apart from many other states in the country.

Such expeditious commitment of funds is a testimony of the staff effort that went into implementing the DWRF and the trust established during the legislative process with members of stakeholder entities who would ultimately take part in the program. It also signaled continued confidence in Michigan's institutional capabilities by the EPA. The track record that the MDEQ and the MMBA have established in the SRF program meant more willingness on EPA's part to work with Michigan in reviewing documents, signing joint agreements, and awarding DWRF capitalization grants.

Of course, the benefactors have been those communities who were able to address needs for improvement and enhancement of their water supply systems. Project plans submitted for consideration by the MDEQ far exceeded expectations. Staff had anticipated only a few project plans would come in allowing them to make some adjustments here and there, however, the demand was much stronger and the DWRF program began with a fast start.

The set-aside amounts identified above, and others such as for administration, capacity development, and operator certification, represent one of the major differences between the SRF

and the DWRF. The set-asides in the DWRF are derived from the overall capitalization grant awarded to the state by the EPA.

Legal provisions now included in 1985 PA 227 permit the state to establish accounts and sub-accounts within the DWRF to track revenues and expenditures for the set-asides. The set-asides for program and other activities will be directly administered by the DWRPD. Staff of the DWRPD will also be responsible for the technical assistance activities, except for those funds made available to subsidize loans to disadvantaged communities. The administrative set-aside will be managed by the MFS.

Summaries of each set-aside activity were prepared by staff of the DWRPD and are available upon request.

VII. ESTABLISHMENT OF INTEREST RATES

The primary advantage for Michigan water suppliers is their ability to borrow funds at below market rates. The DWRF interest rate is established prior to each new fiscal year. As identified in Part 54, 1994 PA 451, determination of the interest rate is based on demand, market conditions, program costs, and future needs. Since a portion of the state match in any given fiscal year may be financed with State Revenue Match bonds, the upcoming year's interest rate must also account for the expense incurred in securing these bonds.

The DWRF is unique when compared against the SRF in that both municipal and non-municipal water suppliers may participate if they are qualified. In assessing the market conditions for each type of entity, it was quickly apparent to MDEQ staff that a municipality would enjoy lower rates of interest on the open markets than would a private, non-municipal supplier who would normally have to obtain financing through commercial lending institutions.

Given the different starting points, MDEQ staff proposed to the Director that the relative amount of subsidy given to each type of water supplier should be equal to ensure that each received comparable benefit. However, this would result in the establishment of two rates of interest, one for municipal borrowers and one for non-municipal borrowers.

The MDEQ computed the different rates by starting with the General Obligation (GO) 20 Bond Index, which are regularly published in financial journals. This is the primary indicator of municipal market rates upon which we have historically based our SRF interest rate recommendations. The 26-week average in the GO 20 Bond Index just prior to developing the IUP was 5.17 percent.

Correspondingly, a telephone poll of several banks operating throughout Michigan found generally that the terms offered on loans to manufactured housing communities for infrastructure financing would include 15 year payoffs, with variable rates of interest based on either federal Treasury-bill rates, plus between 185-280 basis points, or prime plus 2-4 percent. They generally wanted a first mortgage, with the park as collateral. The most favorable rates found in this polling brings the rates in at about 7.8 percent on the open market at the present time.

Examining the other criteria identified in Part 54 led the Director to set a 2.5 percent rate for municipal applicants in the DWRF. To equal the corresponding benefits to such applicants, the rate for non-municipal participants was set at 4.94 percent.

This latter type of borrower would also have to provide a letter of credit, or some other qualified credit enhancement to ensure that they would be investment grade. Subsequent discussions with the first non-municipal applicants have caused us to re-evaluate the requirement for a letter of credit. It has proven to be more costly to the DWRF applicant and there seems to be reluctance on the part of the banks to issue them.

The MDEQ will work with the Michigan Banking Association, the Michigan Manufactured Housing Association and other interested parties in trying to broaden opportunities for credit enhancements during FY1999.

VIII. ADVANTAGES OF THE DWRF

Apart from the low interest rate, suppliers also benefit from the DWRF in that they can finance all eligible waterworks system costs. The major benefit results from the fact that water supply financing in the past has always been left to the local units of government or private entities. Historically, there has been no significant state financial assistance available to local officials in meeting water supply needs. The DWRF will provide an on-going source of funding to maintain or improve drinking water quality and public health.

In addition, the on-site technical assistance, opportunities for source water assessment and protection, operator training and certification program, and the abandoned well management program provide a blend of direct and indirect aids to local communities across Michigan.

The most direct benefit may come in the form of matching grants for up to 50 percent of the costs of source water protection efforts. The DWRPD has developed administrative rules for this grant program and a public hearing was held last June. Staff expects completion of the administrative rules process and award of the first grants early in FY1999.

IX. ALLOCATION OF FUNDS

Allocation of funds among eligible uses is based on a three-step process. First, the MDEQ identifies the sources of funds and the spending limits for the DWRF within the given fiscal year. Next, a determination of the type and amount of financial assistance necessary for each supplier is made. Finally, funds are allocated among the projects consistent with amounts available and the projects' priority standing.

The following information reflects the sources of funds from FY1997 and FY1998 appropriations:

From FY1997:

FY1997 Title IX Funds	\$59,681,100
FY1997 State Match	\$11,936,220
Anticipated Earnings	0
Released Funds (from Debt Service Reserve)	0
Repayments of Principal to DWRF	0
Repayments of Interest to DWRF	0
Total Sources of Funds from FY1997	\$71,617,320

From FY1998:

FY1998 Title IX Funds	\$20,951,400
FY1998 State Match (Regular)	\$ 4,190,280
FY1998 Program Set-aside Match (in-kind)	\$ 875,000
Anticipated Earnings	0
Released Funds (from Debt Service Reserve)	0
Repayments of Principal to DWRF	0
Repayments of Interest to DWRF	0

Total Sources of Funds from FY1998	\$26,016,680
---	---------------------

Early in FY1998, Michigan's DWRF requested set-asides for administration (4 percent), small community technical assistance (2 percent), and source water assessments (10 percent) through award of the first EPA grant to the MDEQ for drinking water. The breakdown is as follows:

• DWRF Administration	\$2,387,244
• Technical Assistance	\$1,193,442
• Source Water Assessment	\$5,968,110

An application for a capitalization grant for set-asides resulting from FY1998 federal appropriations was also submitted by the department to the EPA on January 30, 1998. This application requested \$3,132,084 in federal funds, with a \$1,501,417 state match. This match consists of \$875,000 from an in-kind contribution credit against the Public Water Supply Supervision (PWSS) program administered by the DWRPD, and a \$626,417 cash contribution from the state's general fund. The in-kind match meets the dollar-for-dollar requirement for source water protection, capacity development, and operator certification. The cash match meets the overall 20 percent program match requirement. The breakdown is as follows:

• DWRF Administration	\$ 838,056
• Technical Assistance	\$ 419,028
• Public Water System Supervision	\$ 0
• Source Water Protection	\$ 225,000
• Capacity Development	\$ 450,000
• Operator Certification	\$ 200,000
• Wellhead Protection	\$1,000,000

The EPA actually awarded two capitalization grants that combined amounts from the two years of appropriations. The first grant was awarded on December 9, 1997 for set-aside funds from the FY1997 appropriation. The amounts included \$9,548,796 in federal funds and \$1,909,759 in state match. The second grant combined set-aside funds from the FY1998 appropriation, along with program funds from both fiscal years. This grant was awarded by EPA on June 12, 1998 and added \$71,083,704 in federal funds, \$14,216,741 in regular state match and \$875,000 in special state in-kind match.

In total, Michigan's DWRF program received \$80,632,500 from the federal government and matched it with \$17,001,500 in combined regular and special state match. The regular state match was deposited directly into the DWRF accounts held in Treasury, rather than being drawn as disbursement requests are made.

Total sources of funds available for all DWRF uses equal \$97,634,000 in FY1998. \$16,092,056 will be distributed through set-asides, and \$6,541,944 will be reserved for "as-bid" increases occurring for fundable projects. Therefore, the amount available for loans to local water suppliers was approximately \$75,000,000.

This amount will not be available to Michigan's DWRF in future years. The set-aside and project loan allocations in FY1998 combine federal appropriations for three years. Congress originally appropriated money for the drinking water program prior to re-authorizing the SDWA. FY1996 appropriations were re-allotted into the FY1997 sum, increasing it substantially. In addition, the FY1998 appropriation passed and added even more federal funds. Therefore, the capital pool for FY1998 is much greater than normal. In future years, Michigan expects only \$20-25 million annually.

The governor of each state may, at his or her discretion, transfer 33 percent of available moneys between the SRF and the DWRF programs. This may occur starting one year after a state receives its first capitalization grant for project funds. Thus, this option was not considered during the period covered by this annual report.

X. EPA AUTOMATED CLEARINGHOUSE ACTIVITIES

As the federal capitalization grants for the set-aside funds were awarded, EPA automatically processed automated clearinghouse requests for increases to the state's draw capabilities. Thus, \$9,548,796 and \$3,132,084 were drawn respectively from FY1997 and FY1998 funds for the set-asides. In addition, \$18,132,085 was drawn for initial project expenditures in the third quarter.

XI. ASSURANCES

The final guidelines from EPA set forth provisions that the state must give certain assurances in order to qualify for capitalization grant funding. These assurances were incorporated into the Operating Agreement signed by EPA, MDEQ and MMBA on December 9, 1997. Along with federal and state law, the Operating Agreement serves as the framework by which Michigan's DWRF program operates. The MDEQ and MMBA have fulfilled the stated assurances throughout the operation of the DWRF during this fiscal year.

XII. SUMMARY

Since the award of the first DWRF loans to the cities of Saline and Mt. Clemens and the townships of Carrollton and Polkton on June 12, 1999, the MDEQ and MMBA worked together with EPA to ensure the on-going success of Michigan's DWRF program.

Many of the successful elements of the SRF for wastewater have been incorporated into the DWRF. However, where program differences were evident, changes were made to improve overall administration. The introduction of additional benefits for disadvantaged communities, the streamlined project planning and environmental review process afforded by the use of categorical exclusions, the use of specialized set-aside funds designed to directly enhance communities' ability to respond to water supply infrastructure needs, and the introduction of funding for non-municipal entities are all ways in which the state responded to unique needs during the implementation of the DWRF program.

Of the total \$53,340,000 loaned to the initial 24 projects during the fiscal year, the breakdown of categories is as follows:

• Transmission/Distribution	\$26,900,787
• Treatment	\$16,188,761
• Storage	\$ 7,757,186
• Source	\$ 2,393,266

Over the course of the year, the MDEQ and MMBA processed \$2,558,057 in actual disbursements. This included \$678,864 in disbursement requests for MDEQ administrative costs. Set-aside requests added another \$157,118. The remaining \$1,722,075 was wired to local units of government to reimburse the initial costs of their new projects.

One project, Polkton Township in Ottawa County, was administratively completed during the fiscal year. This was a small transmission extension that commenced construction immediately upon loan closing and completed within budget prior to the end of the fiscal year. No other projects were completed or initiated operation during FY1998.

Prior to September 30, 1998, the MDEQ was already at work preparing projects that were vying for FY1999 funding. Project plans from interested communities were due to the MDEQ on July 1. The Intended Use Plan and Project Priority List were prepared and a public hearing was held in August. Like FY1998 projects, these will also undergo environmental review by the project managers and district engineers in the MDEQ.

The fast start-up of the DWRF has helped to generate a great deal of interest in this low-interest loan program. The work with water supply stakeholders, the explanatory workshops conducted in December, 1997, the evolution of The Loan Arranger newsletter, and numerous meetings with community officials have paid dividends in marketing this financial assistance across Michigan. Success of the DWRF will help local water suppliers continue the tradition of delivering sufficient, safe, potable water to citizens throughout the state.

XIII. ORIGINATION OF DOCUMENTS

The FY1998 DWRF Annual Report is prepared by the Technical Support Unit of the MFS, however, it is a collaborative effort with the DWRPD. Questions may be directed to Mr. Thomas Kamppinen, Chief of the MFS. He may be contacted at 517-373-2161.